

Economic Trends

Slowdown in household sector

Alberta's economy continues to feel the effects of lower oil prices, with unemployment on the rise, wage growth tapering off, and consumers pulling back on spending. Low energy prices are dragging down activity in the oil and gas sector and weakness has spread to manufacturing and other areas. Despite the slowdown, both residential and non-residential construction activity has held up. This month's InFocus looks at the economic index of wellbeing for Alberta.

Alberta Household Sector

Elevated number of unemployed

The Alberta labour market continues to soften. Employment in June fell for the second-straight month and growth declined to just 1.0% year-over-year (y/y). The number of unemployed has climbed to a five-year high and the unemployment rate has risen to 5.7% (Chart 1). The rise in unemployment has been accompanied by a steady increase in the number of people claiming employment insurance benefits (EI). The number of new claims

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	June	2,303	+1.0%
Unemployment Rate	June	5.7%	+0.9 p.p.
CPI Inflation (unadjusted)	June	1.7%	+0.3 p.p.
Retail Sales	May	\$6.3 B	-1.7%
Housing Starts (annualized)	June	41,838	+22.3%
Rigs Drilling (unadjusted)	July	117	+49.1%
Manufacturing Shipments	May	\$5.8 B	-11.8%
Exports (unadjusted)	May	\$7.0 B	-29.6%

Source: Statistics Canada, CAODC, CMHC. p.p. = percentage points.

was up 51% for the first 5 months of 2015, and the number of beneficiaries was up 32%. While unemployment has increased, fewer jobs are available, as job vacancies have steadily declined. Average weekly earnings have been falling for four months and were up only 0.2% y/y in May, the slowest growth rate in almost twenty years.

Housing buoyed by multis

A rise in multi-unit construction is propping up Alberta's housing market.

Alberta housing starts averaged 40,700 starts (annualized) over the first half of 2015, lifted by a 22% increase in apartment starts, year-to-date (YTD). On the flip side, single-unit starts have been moving in the other direction, falling 14% YTD. Edmonton has been the source of the activity, up by half this year and offsetting a substantial decline in Calgary. All segments of the Alberta resale housing market have weakened, but the market in Edmonton has held up better than the rest of Alberta.

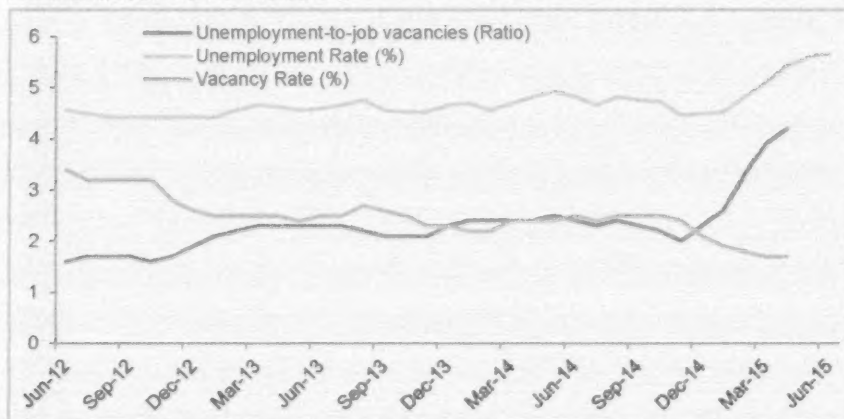
Consumer prices creep up

Consumer price inflation rose to 1.7% in June from 0.6% in May, on higher gas prices. Though gasoline prices were still down 14% y/y, they jumped 10% in June. Excluding energy prices, inflation was elevated at 2.5%. Food prices continue to be a major driver, up 3.8% YTD, as consumers are paying more for meat and fresh fruit and vegetables. Excluding food and energy prices, inflation was 2.2% YTD.

Albertans reining in spending

Retail sales have fallen 2.1% YTD through May. Though lower gas prices were responsible for much of the drop, sales have also been weak at other outlets (+0.1% YTD). Albertans are reducing their discretionary purchases,

Chart 1: Greater numbers of unemployed and fewer jobs available
Alberta labour market indicators



Sources: Statistics Canada

with spending at new car dealers down 6.7% and sales at food and drinking places in May and April at the lowest level since February 2011.

Alberta Business Sector

Manufacturing slowing

Alberta manufacturing sales ticked up modestly in May due to higher petroleum and coal shipments, but remain down 12% y/y. Sales continue to be pulled lower by shipments outside petroleum and coal, which have been trending lower since December. Much of the drop can be traced to machinery manufacturing, which has fallen 25% since December. A large portion of Alberta's machinery manufacturing is for use in oil and gas extraction, and has suffered from the slowdown in oil and gas activity across North America. This can be seen in Alberta's industrial machinery exports, which fell 42% y/y to a 5-year low in May. To a lesser extent, chemical manufacturing sales have also drifted lower this year. A bright spot for shipments has been food manufacturing, which has been lifted by higher beef prices.

Lower costs support construction

Though the value of non-residential investment fell in the second quarter, real construction activity (ie. holding prices constant) was up a modest

0.5% (Chart 2), suggesting builders are finding cost savings. Construction was supported by governmental and institutional building, which has been increasing steadily for four quarters. Institutional building has helped to offset softening commercial investment over the last three quarters. This decline in commercial construction has mostly occurred outside Alberta's two major centres, with Edmonton growing strong and Calgary holding steady. Notwithstanding an uptick in May and April, commercial permit values have fallen significantly this year, a sign of continued weakness.

Oil prices fall again

After a short-lived recovery, oil prices have once again tumbled, with WTI falling 20% in the last month to below US \$50/bbl. The decline in oil prices was caused by both demand and supply factors. Financial turmoil in Europe and China renewed fears over global demand. Meanwhile, supply has proven ample despite low prices. US production has fallen by less than the decline in drilling activity would suggest, Saudi Arabian production has increased, and a historic nuclear deal with Iran could lead to increased production. Depressed prices have caused drilling activity in Alberta to plummet, with the number of

metres drilled for oil down 70% YTD. Rig activity is at the lowest level since 2009.

Outside Alberta

Loonie falls as weak economy prompts rate cut

The Bank of Canada cut interest rates for the second time this year, lowering its target rate by 25 basis points to 0.5%. The ongoing oil price shock has weighed heavily on Canada's economy, causing the Bank to lower its forecast for Canadian real GDP growth in 2015. Capital expenditures in the oil and gas sector have declined more than the Bank previously expected. Following the rate cut, the Canadian dollar fell to 77 US¢/C\$, the lowest level since March 2009.

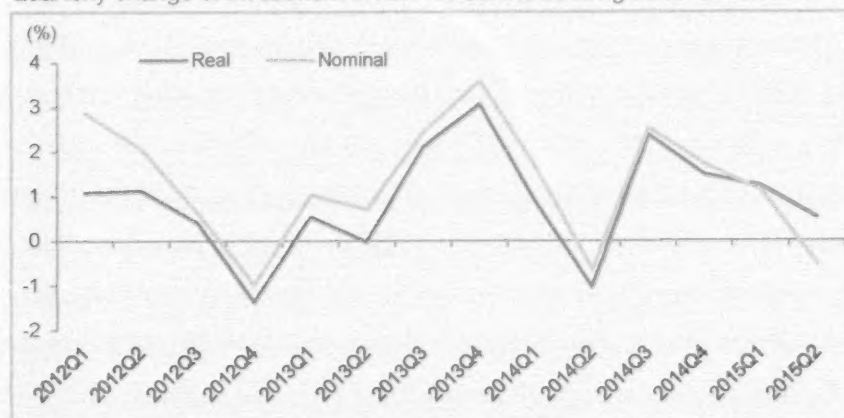
Greece pulls back from the brink

Greece and its creditors arrived at a last-minute bailout agreement earlier this month, which will allow Greece to remain in the Euro. Fear of a Greek exit from the common currency in the weeks leading to the agreement caused a bank-run as Greek depositors withdrew money from the banking system. This resulted in capital controls, several weeks of bank closures and limits on daily withdrawals. The agreement requires Greece to implement numerous economic reforms, tax hikes and spending cuts in exchange for €86 billion in additional bailout funds.

Chinese stock market bubble pops

After gaining over 150% in the past year, Chinese equity prices fell by 35% between June and July, wiping out around US \$3.5 trillion in wealth over a few days. As stock prices crashed, regulators stepped in by restricting large volume transactions and prohibiting short selling. The Chinese central bank also cut interest rates to mitigate the adverse impact on China's economy. The market crash raised fears that China's economy is weaker-than-expected, causing ripples in commodity markets.

Chart 2: More non-residential construction despite falling spending
Quarterly change of investment in non-residential building construction



Source: Statistics Canada

Contact

Kailer Mullet

780.427.7391

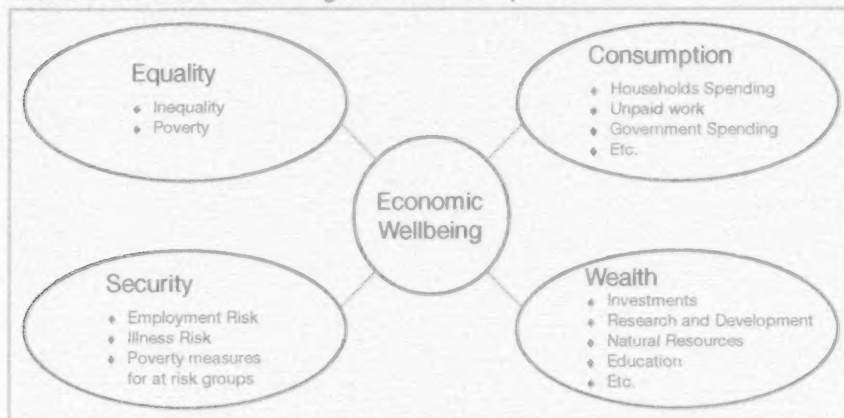
inFocus

Going Beyond GDP: The Index of Economic Well-being

Gross Domestic Product (GDP) per capita is the most widely used indicator on the health and performance of an economy, and is frequently used to measure living standards. It captures the value of income generated per person; however, it does not measure changes in wealth, security, and equality. For this reason, GDP per capita has been criticized by some on its ability to comprehensively measure economic well-being. Additional measures of living standards have been developed over the past twenty years as an alternative to GDP per capita; one is the Index of Economic Well-being (IEWB). This InFocus describes what the IEWB measures and how Alberta performs using the latest data available (2013).

Chart 1: Index of Economic Well-being

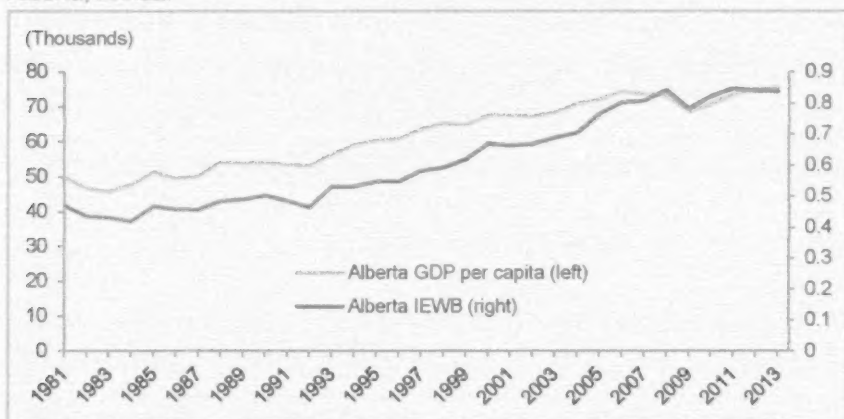
Four Dimensions of Well-being and Selected Inputs



Source: Centre for the Study of Living Standards

Chart 2: Index of Economic Well-being and GDP per Capita

Alberta, Annual



Source: Centre for the Study of Living Standards

Index of Economic Well-being

The Index of Economic Well-being (IEWB), developed by economist Dr. Lars Osberg, attempts to capture areas GDP does not fully address. These include consumption, wealth, equality, and security (Chart 1). The index is a weighted average of these four dimensions:

- Per capita consumption, including consumer spending per person, family size, life expectancy, unpaid work, government expenditures, and regrettable expenditures (such as crime and commuting).
- Per capita wealth, including physical investments, as well as research and development, natural resources, human capital, net-international investment position, and greenhouse gases.
- Economic equality, which reflects the degree of income inequality and the extent of poverty.
- Economic security, which measures the risk of unemployment and the risk of poverty for single parents, the ill, and the elderly.

The Centre for the Study of Living Standards (CSLS), a Canadian non-profit organization, developed datasets on the IEWB for Canada and fourteen OECD countries from 1981 to 2013. For more information, refer to their website at www.cs/s.ca.

How Alberta Measures Up

CSLS data show Alberta's IEWB follows a similar path as GDP per capita, and has increased over time (Chart 2). Similar to GDP per capita, Alberta has consistently led the provinces in the IEWB (Chart 3). Within certain dimensions, however, Alberta's ranking has fluctuated over time.

In 2013, Alberta had the highest IEWB in Canada, with a greater score in each of the four dimensions. This was primarily due to per capita consumption, a heavily weighted dimension in the IEWB. Per capita consumption is driven strongly by personal spending, but includes other categories. For example, the reported value for unpaid work was higher in Alberta compared with the other provinces, despite the number of hours of unpaid work (volunteerism and household work) being lower, because Alberta has the highest wages in the country. In addition, Alberta led in per capita wealth due to higher net capital stock per person, as well as significant natural resources, in particular its bitumen reserves.

Alberta also performed well on economic equality in 2013 due to its comparatively low poverty rate. Though Alberta has the highest income inequality in Canada, its low income earners tend to be better off compared with low income earners in other provinces. In terms of economic security, Alberta ranked highest among the provinces because of its low unemployment rate and lower rates of elder poverty. However, it was second to Saskatchewan in protection against unemployment and second to New Brunswick in protection against single parent poverty.

International Comparison

The CSLS also developed an index for 14 OECD countries that captures additional components of the four main dimensions of the IEWB (for example, value of leisure time and business expenditures). In comparison to these countries, the IEWB for Alberta was lower than Norway, the United Kingdom, Belgium, and the Netherlands (Chart 4). Compared with Alberta, Norway and the United Kingdom have higher per capita consumption, while Belgium and the Netherlands scored high in economic equality due to both lower poverty rates and income inequality.

Measurement Challenges

Measuring economic well-being will always be a challenge. There are two major measurement issues. First, to develop the index, a choice must be made on the relevant indicators of well-being. The choice of indicators is based on data availability and will always be subject to debate. Second, appropriate weightings must be attached to each indicator in order to come up with an aggregate well-being measure. To address the issue of weighting, the CSLS provided data that facilitates analysis using different weightings for each indicator. In 2013, under all weighting schemes, Alberta had the highest IEWB ranking among the provinces.

Conclusion

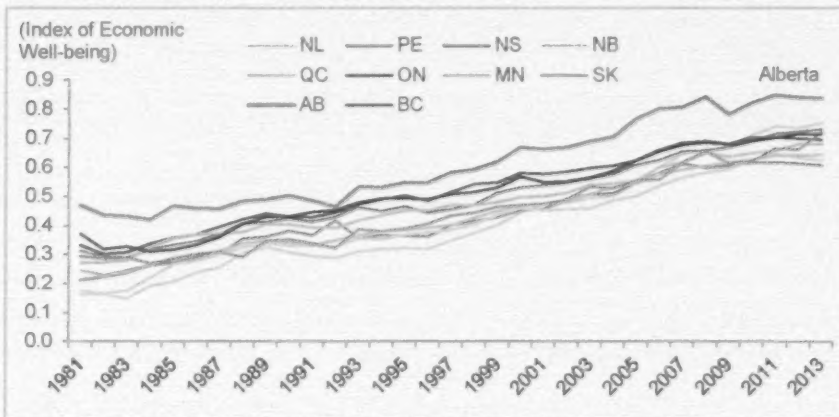
This inFocus examines an alternative measure of well-being, the IEWB. While Alberta has seen strong growth in GDP per capita, a measure of income, it also ranks high when accounting for other aspects of economic well-being.

Contact

Jordan Mahar

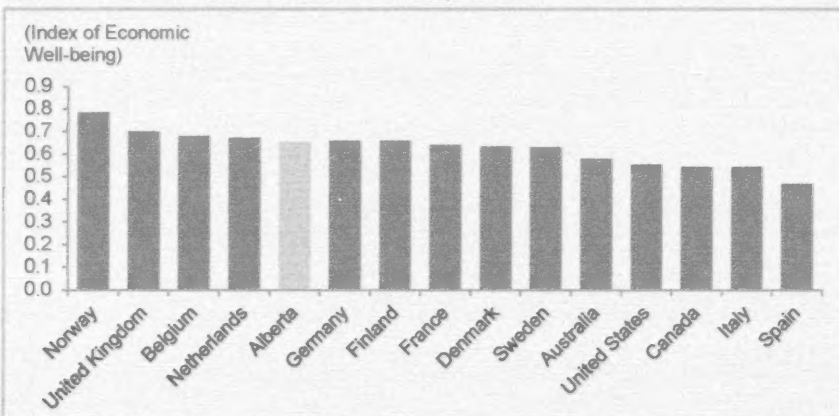
780.427.8845

Chart 3: Interprovincial comparison of the Index of Economic Well-being
IEWB for Canada and the Provinces, 2013



Source: Centre for the Study of Living Standards

Chart 4: International comparison of the Index of Economic Well-beings
IEWB for Alberta and 14 OECD Countries, 2013



Source: Centre for the Study of Living Standards